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Pensions & Investment Age

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California PERS takes $1 billion in-house

By Steve Hemmerick

SACRAMENTO, Calif. — The California Public Employees' Retirement System is pulling $1 billion in-house to invest in the stocks of small and medium-sized companies, an area of the market in which the $30 billion pension fund has been seriously underweighted.

The $1 billion will come mostly from cash and contributions. The remainder will be taken from existing managers, but which ones hasn't been decided yet, said Greta Marshall, investment officer.

Until now, equity assets have been managed externally by Citicorp, New York, as the active manager, and Bankers Trust, New York, as the passive manager. Both managers are being retained.

Pulling $1 billion in-house is only one of a series of planned strategic moves aimed at improving the investment return on its $8.5 billion equity portfolio, Ms. Marshall said.

A key part in improving the system's equity return, she said, is the long-term investment strategy now being developed.

Its equity pool has become so large, she said, that strategies appropriate for a smaller fund — such as having a number of very small specialty managers managing small amounts of money — won't work for a $30 billion system that keeps growing.

Ms. Marshall said she wants five to 10 external managers, coupled with large in-house active and passive equity pools. She and her staff have begun work, she said, on developing computer models to actively manage large in-house equity pools that will buy undervalued securities and will sell overvalued ones.

She said she has run such in-house pools before at Deere & Co., where she was manager-finance and investments. The in-house pools, she said, matched or beat many of the externally managed assets.

The overall strategy now includes dipping into smaller stocks, where the system hasn't been before, and using new active and passive investment styles, where the performance of one style will be matched against another.

Consequently, the retirement system's large pool of equity assets will be broken up into many smaller pools as the system prepares a strategy for the long term and increases its equity allocation to $12 billion from the current $8.5 billion.

It will be the first time the system has managed equity assets in-house, although it has always managed fixed-income and cash investments internally.

Under previous state law, the system was required to keep custody and perform executions concerning the assets, but the equity assets were regarded as being externally managed, said Ms. Marshall.

(In a move already under way, fund officials are negotiating with six new external equity managers (*Pensions & Investment Age*, Dec. 23) that will receive a total of between $600 million and $3 billion.)

The ultimate size of the actively managed in-house equity pools hasn't been decided. Ms. Marshall said she plans to "beef up" her in-house staff to help manage the money. The passively managed in-house pools, she said, will be relatively easy to manage.

Where appropriate, all the different kinds of approaches to managing equity money — the active external, active internal, passive internal and passive external asset pools — will be matched against each other. If the actively managed assets, over the long term, can't beat the passive equity pools, all equity assets for the system could become passive, said Ms. Marshall.

(In mid-1985, the employees' companion fund, the $15 billion California State Teachers' Retirement System, announced plans to switch from mostly active to 50% to 67% passive management in the next three years. Tom Flanigan, the fund's chief investment officer, said the move was due to the fund's size.)

Because of the huge amounts of assets it holds, the California Public Employees' Retirement System has limitations in movement that smaller funds don't have. Since California law was changed last year, there is no problem with holding large pools, as core holdings, of stocks from small and medium-sized companies.

Part of the reason for the shift to small and

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Avon goes to passive portfolios

By Richard J. Gillespie

NEW YORK — In a continuing move toward passive management, Avon Products Inc. has switched $35 million from three equity portfolios into a stock index fund and about $65 million from two fixed-income portfolios into a dedicated portfolio.

One equity manager and two fixed-income managers were dropped in the changes.

Elio Parroni, group manager-employee benefit funds, said plan executives hope to increase returns by lowering commissions costs and management fees.

"Most years, the median manager has not equaled the index returns in both equities and bonds, and that is before fees are taken out. If you take out fees, it has been even worse," he said.

The Avon $415.3 million defined benefit plan, which is heavily funded on a termination basis, now has an equity exposure of 60%, which excludes 3% in real estate equity.

On the fixed-income side, the plan's entire 16% bond exposure was concentrated into a dedicated fund set up for retired lives and is to be duration-managed by J.P. Morgan Investment Management.

The plan's bond portfolios had been actively managed by Centerre Trust Co. of St. Louis and Fayez

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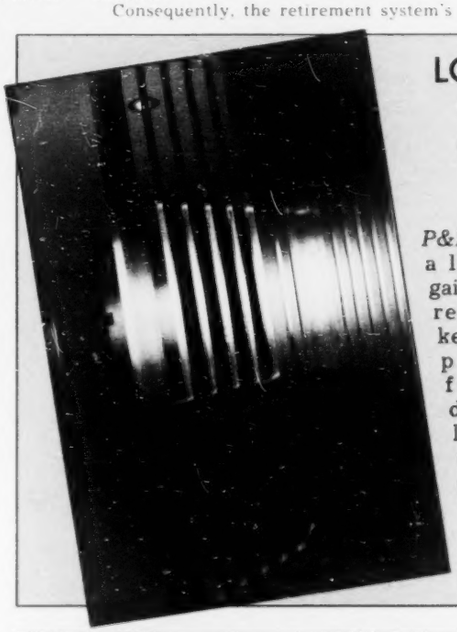

LOCKING UP GAINS

P&I Age takes a look at the gains made in recent markets and what pension funds are doing to lock up those gains, on page 3.

Late news

FASB statement out

STAMFORD, Conn. — The Financial Accounting Standards Board issued a statement detailing the accounting treatment to be used when pension plans have been terminated.

Statement 88 is closely related to No. 87, which for the first time requires general pension fund liabilities be shown on the balance sheet

(*see story page 8*).

Under Statement 88, previously deferred gains or losses are to be recognized in earnings when a pension obligation is settled. A settlement is defined by the FASB as "any irrevocable action that relieves the employer of primary responsibility for a pension obligation and eliminates significant risks related to the obligation and the assets used to effect that settlement."

Until now, a corporation entering into an asset reversion involving the termination of one plan and establishment of another was not permitted to recognize immediately any gain in earnings.

Under Statement 88, a loss is recognized in earnings when a curtailment is probable and its effects can be reasonably estimated. A gain is to be recognized in earnings when

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Southwestern Bell invests overseas

By Rose Darby

ST. LOUIS — Southwestern Bell Corp., with $4.5 billion in employee benefit assets, marked the end of 1985 by allocating $140 million to four international equity managers, said Roger Wohlert, assistant treasurer-corporate finance.

Southwestern Bell's move means only two of the seven regional Bell operating company pension funds — NYNEX Corp., New York, and BellSouth Corp., Atlanta — have no international investment capabilities. NYNEX officials, however, are said to be screening international managers.

The four Southwestern Bell choices are: Fidelity International Investment Advisors and Putnam International Advisors, both of Boston; IDS International Inc., Minneapolis; and Nomura Capital Management, New York.

Fidelity will manage $50 million, and Putnam and IDS, $30 million each, in international equities, said Mr. Wohlert. Nomura will receive $30 million to make equity investments with a Pacific Basin orientation, he said.

Mr. Wohlert said Southwestern Bell officials do not plan additional international investments.

Among earlier moves by the Bell companies after they were spun off from American Telephone & Telegraph Co.:

• Pacific Telesis Group, San Francisco, hired five international equity managers between late 1984 and the first half of 1985 to invest about 5% of the $5.4 billion pension fund. They are ABD International Management Corp., New York; Fidelity International; Morgan Grenfell Investment Services Ltd., London; N.M. Rothschild International Asset Management Ltd., London; and Capital Guardian Trust Co., Los Angeles.

PacTel officials have said their target for foreign investment is 10% to 15%.

• American Information Technologies Corp., Chicago, hired four international managers in mid-1985. They are: ABD International; IDS International; Capital Guardian; and Baring International In-

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TI portfolio 'synthetic'

Junk bonds bought

By Barry B. Burr

DALLAS — Texas Instruments Inc. has put $10 million into a "junk bond" portfolio that, along with buying the low-rated, high-yield debt securities, sells short actual Treasury securities, according to William L. Green, manager-pension fund investments.

Ed S. Schriver, vice president, Southmark Pension Advisors Inc., Dallas, who runs the Texas Instruments portfolio, calls it "a synthetic junk bond fund."

So far, the fund's returns are mixed, as measured against bond indexes, although Mr. Schriver pointed out its objective isn't to beat the indexes.

For the quarter ended Sept. 30 (TI's first investment period with the fund), the fund returned a non-annualized 3.3%, he said.

(By comparison, in the same pe-

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Allis-Chalmers, PBGC sued over termination

By Trudy Ring

WASHINGTON – Six participants in an underfunded Allis-Chalmers Corp. pension plan have sued the company and the Pension Benefit Guaranty Corp. for allegedly violating ERISA in terminating the plan.

The suit, filed Dec. 20 in U.S. District Court here, alleges the July 26 termination of the plan violated the terms of the plan's governing documents. Under the Employee Retirement Income Security Act, pension plans are obliged to conform to their own governing documents, said David Levin, the Washington attorney representing the plaintiffs.

Mr. Levin said this probably is the first post-termination suit to name the PBGC as a defendant, although the agency has been sued by persons trying to block terminations.

The plaintiffs seek more than $50 million in pension plan contributions, punitive damages and benefits lost as a result of the termination. They also seek restoration of the plan and removal of the PBGC as its trustee.

Officials of Allis-Chalmers and the PBGC declined comment on the suit.

The plan, covering hourly employees represented by the United Auto Workers union, was underfunded by about $165 million (*Pensions & Investment Age*, July 22). The Milwaukee company left other retirement plans intact.

According to the complaint, the Allis-Chalmers plan documents obligated the company to take no action to terminate the UAW plan until Jan. 31, 1986. By terminating the plan before that, Allis-Chalmers reduced its funding obligations significantly, the suit alleges. The company was obligated to make its 1984 plan year contribution of $15.6 million by Sept. 15, 1985, and more than $10 million for the 1985 and 1986 plan years combined.

The suit alleges that by terminating the plan in July and retaining the $15.6 million that was supposed to have been contributed by September, Allis-Chalmers knowingly used the plan assets in its own interest and for its own account, therefore causing the retirement plan to engage in transactions prohibited by ERISA.

The complaint further alleges that because of the July termination, three of the plaintiffs, Jim Buese, Ruth Glick and Barnett Aughinbaugh, suffered a reduction in pension benefits, and Ms. Glick was denied the right to immediate benefits.

It also alleges the other plaintiffs, Tom Pfizenmaier, Edward Acker and Richard Kirchhoff, were denied the right to receive any benefits. Each would have become vested had the plan continued through January.

The PBGC is named in the suit because the plaintiffs allege the agency was aware of the requirements of the plan documents and took no action to stop the termination.

"What we're saying is they didn't have to take it (the claim) and they took it," Mr. Levin said.

The plaintiffs seek to have Allis-Chalmers pay the pension fund all contributions for 1984, 1985 and the applicable portion of 1986, plus interest, and to have the company and the PBGC compensate the plaintiffs and all other plan participants for benefits lost because of the termination.

Also, they ask the court to award punitive damages of $30 million against Allis-Chalmers and the PBGC.

They further seek restoration of the plan, effective retroactively to July 26, and removal of Allis-Chalmers as administrator and the PBGC as trustee. They also seek to enjoin Allis-Chalmers and the PBGC from acting to terminate this plan or any other retirement plan in violation of the governing documents.

No court date has yet been set. ■

Venture firms gain investors

By Trudy Ring

Several tax-exempt funds have made commitments to two venture capital partnerships — one focusing on health care and electronics, one on high technology.

Lawrence Venture Associates, with offices in New York and Nashville, Tenn., has drawn pension fund investors that include Sterling Drug Inc., New York; Federal Express Corp., Memphis, Tenn.; the Wisconsin State Board of Investment, Madison; and the Iowa Public Employees' Retirement System, Des Moines.

The Wisconsin board also committed assets to the Venture Capital Fund of New England, Boston. Among that pool's other tax-exempt investors are Landmark Charitable Foundation, Norfolk, Va., and endowment funds, including Babson College, Wellesley, Mass., and Boston University.

Also, Manufacturers Hanover Investment Corp., New York, has agreed to make commitments to both the Lawrence and New England pools on behalf of a pension fund client.

Wisconsin made a third commitment to Nazem & Co., New York, but information on the fund's other investors could not be obtained by press time.

Lawrence Venture Associates, concentrating on health care and electronics, recently had an initial closing with $28 million, about half of that from pension funds, said Larry Lawrence, managing partner.

The initial closing was to initiate the fund formally, but it will continue to take on investors, with a final closing planned for early 1986, Mr. Lawrence said. Its target is $60 million.

The fund was the recipient of the Sterling Drug pension fund's first venture capital commitment. Pension officials wanted to diversify the $200 million fund further, a Sterling Drug spokesman said. He declined to say how much the fund invested.

The Sterling Drug pension committee's decision to invest in the Lawrence partnership came easily because of the focus on health care, according to the spokesman: "We said, 'Let's do something that we know something about.'"

He said the pension committee will consider recommendations on other venture capital investments in 1986. These will be outside the medical area, the spokesman said.

Federal Express' commitment to the Lawrence fund was its second for venture capital, said Jeffrey O. Drinan, senior manager-trust investments. The company, which has about $175 million in pension and profit-sharing funds, made its first venture capital commitment in February, Mr. Drinan declined to say how much the fund invested.

He said the Lawrence fund was attractive because of the emphasis on health care and the experience of the partners. Mr. Lawrence formerly was president of Citicorp's venture capital division (which gave Federal Express some of its start-up funding).

The $10.8 billion Wisconsin investment board committed $5 million to the Lawrence partnership, said Ronald Niedziela, investment director-special equity. The board is in its second round of venture capital commitments; it invested in four partnerships last fall, after receiving legislative approval to do so. Mr. Niedziela said he probably will make further recommendations on venture investments to the board in January.

He said the board was attracted to the Lawrence fund because of the partners' track record and its focus on health care.

The Iowa retirement system agreed to invest up to $5 million, or 10% of the total raised by the partnership, in Lawrence Venture Associates (*Pensions & Investment Age*, Dec. 9). Another corporate pension fund reportedly invested in the partnership, but officials could not be reached for comment.

Also, Manufacturers Hanover Investment Corp. put $2 million into the fund on behalf of a pension fund client, said Raymond L. Held, senior vice president and director, venture capital group. He declined to identify the client.

Mr. Lawrence said the fund will put capital into young companies during the next four or

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Balanced manager also hired

Tampa dedicates bond portfolio

Ed Christman

TAMPA, Fla. — The $123 million City of Tampa General Employees Retirement Fund has become one of about a half dozen public pension funds to establish a dedicated bond portfolio.

Prudential Asset Management Co., Newark, N.J., set up the $38 million portfolio and MH Investment Counsel, Atlanta, was hired to manage the portfolio.

In a separate move, Tampa trustees hired balanced manager Leavy Investment Management, Atlanta, to run $10 million. The money was taken from Courier Capital Corp., Buffalo, N.Y., which retains $10 million.

To fund the dedication, Investment Counsel Co., Orlando, Fla., a fixed-income manager that ran $25 million, was terminated, Cinda Huntley, chairwoman of the pension fund, said the remainder of the assets came from Courier, Thorndike, Doran, Paine & Lewis, Atlanta, which still retains $50 million; and from uninvested assets. She would not elaborate.

The Tampa dedication, which was set up to cover the liabilities of all workers retired before March 1985, locks up a 10.69% return for 30 years, Ms. Huntley said.

Ms. Huntley said the biggest percentage of the dedicated portfolio is in government bonds, followed by guaranteed investment contracts with Prudential.

She said the dedication would save the fund about $600,000 a year in contributions. That money probably will not be used to increase benefits, she said.

In addition, it allows the fund to raise its actuarial rate of return to 8% from 6.5%.

"I wanted to use a dedication because I wanted some more stability . . . as opposed to the big ups and downs of the equity market," Ms. Huntley said. "I wanted something I could be more comfortable with that didn't fluctuate so much."

The Tampa fund used James J. Lowrey & Co., New York, to take bids. The fund gave 11 bid criteria, including securities with at least an AAA rating from Standard & Poor's Co. and GICs rated as good as or better than Best's Insurance Report's A rating. Best's Insurance Report is published by A.M. Best Co., Oldwick, N.J.

"The bid had to lock up the highest rate of return with the least risk," Ms. Huntley said. "The higher the bid, the less we had to take out of" other portfolios, she said.

Had the dedication been done when officials first started talking about it in November 1984, "we could have gotten 15% and done it for $25 million or $26 million," Ms. Huntley said.

"Still, (the dedication) looks good," considering where interests rates are now. ■

Hutton is top story of '85

By Nancy K. Webman

The E.F. Hutton & Co. Inc. cash management scandal was the most important capital markets institutional investing story of 1985, a survey by *Pensions & Investment Age* shows.

The survey questionnaire was published in the Nov. 25 issue of *P&I Age*. Readers were asked to rank order, from among 22 choices, the five most significant stories in the pension investment, corporate finance and cash management fields.

Interestingly, each of the Top Five stories of 1985 also is expected to grab headlines during 1986 as well.

In the Hutton case, settled out of court, company Chairman Robert Fomon on May 2 pleaded the New York firm guilty to 2,000 charges of wire and mail fraud in connection with the firm's cash management practices. Hutton had been accused by the U.S. Department of Justice with carrying out a complex check kiting scheme in which it systematically overdrew hundreds of its accounts across the country between July 1, 1980 and Feb. 29, 1982.

Fallout from the Hutton affair continued long after the settlement. Various governmental and regulatory bodies still are scrutinizing the cash management procedures of corporations, brokerage firms and banks.

The second most significant story of the year was the $9.45 billion in surplus assets reclaimed by corporations that terminated overfunded pension plans during the past five years.

Among the largest terminations of overfunded plans in 1985: United Air Lines, Chicago, which is getting back more than $962 million; FMC Corp., Chicago, which will recapture between $250 million and $400 million; and Union Carbide Corp., New York, whose $500 million surplus may be used by GAF Corp. in its attempted takeover of Carbide.

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1985 underwriting rankings
(Full credit to lead manager)

Salomon Bros. dominates list of underwriters

NEW YORK — Salomon Brothers Inc. continued to be the strongest investment banking firm overall in 1985, leading the underwriting rankings for U.S. issuers in both the U.S. and European markets.

Salomon's dominance came in a year of large and innovative financings, both domestically and internationally.

Domestically, corporate financings surged to $138.5 billion from $82.7 billion in 1984, according to IDD Information Services. Domestic straight debt issues surged about 49% to $97.7 billion from $65.2 billion in 1984; common stock issues almost tripled to $24.8 billion from $8.9 billion as the stock market soared.

Worldwide, U.S. issuers raised $167.8 billion, including $35.7 billion in the Euromarket, while all issuers raised $270.8 billion.

The surging markets produced innovation in the form of asset-backed financings, including securities backed by receivables and securities backed by commercial real estate, and new classes of stock and new kinds of variable rate notes.

Salomon's strength showed in almost all areas of the market.

On a full credit to lead manager basis, Salomon Brothers ranked first in the U.S. market with 22.3% of all debt and equity issues, ahead of The First Boston Corp., 15.6%, and Goldman, Sachs & Co., 11.8%, the IDD Information Services figures showed.

On a bonus credit to lead manager basis, Salomon had 18.9% of the market, First Boston, 14.5%, and Merrill Lynch Capital Markets, 11.8%.

In the Eurobond market, Salomon had a 15.1% market share on a full credit to lead manager basis, followed by First Boston, 14.4%, and Goldman, Sachs, 11.3%.

On a bonus credit basis, however, First Boston took first with a 13.3% share followed by Salomon, 12.5%, and Merrill Lynch, 8.8%.

For all issues by U.S. issuers on a worldwide basis, Saloman Brothers was again top on a full credit to lead manager basis, with 20.3% of the market. It was again followed by First Boston, with 15.2%, and Goldman, Sachs, with 11.8%. On a bonus credit to lead manager basis, Salomon's leading market share was 17.4%, followed by First Boston, 14.3%, and Merrill Lynch's, 11%.

First Boston/Credit Suisse topped Salomon in the worldwide rankings for all issuers and all issues, with a 15.1% market share on a full credit to lead manager basis, and a 13.5% share on a bonus credit basis. Salomon was second with a full credit market share of 14.3% and a bonus credit market share of 12.4%. Merrill Lynch Capital Markets was third under both methods.

Salomon again led in terms of U.S. straight debt issues on a full credit basis, with a 26.6% market share (22% on a bonus credit method), followed again by First Boston, 18.6% on a full credit basis and 17.3% on a bonus credit method.

Salomon was second to Drexel Burnham Lambert Inc. in junk bond financing; third behind Goldman, Sachs and Merrill Lynch Capital Markets in common stock financing; second to Shearson Lehman Brothers Inc. in straight preferred stock issues; and first in mortgage-related debt.

Salomon's overwhelming strength was shown by being lead underwriter for eight of the Top 10 deals of the year, including a $998 million bond issue for Atlantic Richfield Co. in July; an $896 million bond issue for Canada, also in July; a $795 million debenture issue for Chrysler Corp. in November; and an $824 million participating certificate deal for the Federal Home Loan Mortgage Corp. in December.

The company's underwriting strength was shown in July when it came to market with more than $3 billion of deals in one week — as much as other firms do in one quarter.

Salomon also did some of the biggest stock issues of the year, including a $415 million secondary offering of Phibro-Salomon Inc. shares by Minerals & Resources Corp., and a $406 million offering by Beatrice Companies Inc. Building on General Motors Corp.'s successful use last year of class stock in the acquisition of Electronic Data Systems, Salomon developed Class H stock for GM's purchase of Hughes Aircraft Co.

Along with First Boston, Salomon led the way in the development of securitized receivables, bringing out CARs (certificates for automobile receivables) for Marine Midland Bank.

Salomon also played a role in the evolution of the European Currency Unit market, underwriting in the U.S. market a $150 million floating-rate note deal convertible into ECU for Credit National, a French financial institution.

Salomon's only weaknesses were foreign issues by non-U.S. corporations; convertibles, where it ranked eighth; initial public offerings, fifth; and convertible preferred offerings, sixth.

First Boston and Goldman, Sachs each could claim to be the second strongest firm overall. First Boston led only in the worldwide, all issuers, all issues ranking but ranked second in four other categories on a full credit to lead manager basis — U.S. market all issues, Euromarket, straight debt and mortgage-related debt.

Goldman, Sachs ranked first in common stock issues, initial public offerings and convertible preferred issues, and third in the U.S. market combined debt and equity offerings, third in the Euromarket offerings and third in straight debt offerings, all on a full credit to lead manager basis.

First Boston was one of the first in the receivables-backed financing market, underwriting an issue for Valley National Bank early in the year, then stepping into the market again in December with a $525 million auto loan-backed security issue for General Motors Acceptance Corp. — the largest of its kind to date.

In April, First Boston underwrote the first ECU offering in the United States for a U.S. issuer, a $33 million deal for Hercules Inc. The deal signaled the beginning of a broad-based currency market in the United States. Later in the year, First Boston did a yen-based offering in the United States for the Asian Development Bank.

First Boston underwrote two of the Top 10 common stock issues for the year — a $353 million offering by Pacific Telesis Group, and a $350 million secondary offering of Becton Dickinson & Co. stock by the Sun Co. The sale of the stock by Sun ended a legal battle between Becton and Sun that began in the mid-1970s when Sun tried to take over Becton.

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All Issues

U.S. market

	Firm	$ mil.	issues
1.	Salomon Brothers	30,899.4	293
2.	First Boston	21,573.3	274
3.	Goldman, Sachs	16,365.1	145
4.	Merrill Lynch	15,575.9	189
5.	Drexel Burnham	13,336.7	171
6.	Morgan Stanley	10,050.1	104
7.	Shearson Lehman	9,639.0	164
8.	Kidder, Peabody	3,829.1	83
9.	PaineWebber	2,920.5	74
10.	Smith Barney	1,639.0	37
11.	Dean Witter	1,422.8	33
12.	Dillon, Read	1,352.8	12
13.	Prudential-Bache	1,346.8	41
14.	Bear, Stearns	1,320.4	30
15.	E.F. Hutton	955.6	24

Euromarket*

	Firm	$ mil.	issues
1	Salomon Brothers	5,396.0	43
2	First Boston†	5,154.1	46
3.	Goldman, Sachs	4,049.4	29
4.	Morgan Stanley	3,015.9	21
5.	Merrill Lynch	2,817.1	15
6.	Union Bank/Switz.	2,590.7	15
7.	Morgan Guaranty	1,874.4	21
8.	Nomura Securities	1,401.6	12
9.	Banque Paribas	1,159.1	12
10.	Daiwa Securities	1,079.3	10
11.	Shearson Lehman	832.3	8
12.	Swiss Bank	699.4	6
13.	Bank of America	443.6	2
14.	S.G. Warburg	441.8	3
15.	Orion Royal Bank	420.6	10

Worldwide**

	Firm	$ mil.	issues
1.	First Boston†	40,705.5	376
2.	Salomon Brothers	38,742.5	360
3.	Merrill Lynch	23,470.5	236
4.	Goldman, Sachs	21,725.3	185
5.	Morgan Stanley	16,570.2	167
6.	Drexel Burnham	13,411.7	172
7.	Shearson Lehman	12,131.6	180
8.	Deutsche Bank	7,608.8	73
9.	Morgan Guaranty	7,382.3	61
10.	Nomura Securities	5,097.8	62
11.	Kidder, Peabody	4,261.5	88
12.	Union Bank/Switz.	3,785.2	27
13.	Banque Paribas	3,351.1	55
14.	Daiwa Securities	2,968.2	37
15.	Orion Royal Bank	2,942.9	51

Bond Issues

Straight debt

	Firm	$ mil.	issues
1.	Salomon Brothers	25,969.1	234
2.	First Boston	18,185.3	231
3.	Goldman, Sachs	11,253.5	94
4.	Merrill Lynch	10,083.7	102
5.	Drexel Burnham	10,039.9	106
6.	Morgan Stanley	6,937.1	61
7.	Shearson Lehman	5,283.5	99
8.	Kidder, Peabody	2,034.4	41
9.	PaineWebber	1,919.2	41
10.	Dillon, Read	1,004.3	7
11.	Smith Barney	950.7	17
12.	Prudential-Bache	811.1	16
13.	Dean Witter	697.4	14
14.	Bear, Stearns	597.3	11
15.	E.F. Hutton	341.1	5

Convertible debt

	Firm	$ mil.	issues
1.	Merrill Lynch	1,390.8	19
2.	Drexel Burnham	1,185.3	21
3.	First Boston	850.0	11
4.	Goldman, Sachs	615.0	7
5.	Shearson Lehman	530.0	8
6.	Kidder, Peabody	355.0	11
7.	Bear, Stearns	330.0	6
8.	Salomon Brothers	295.0	4
9.	E.F. Hutton	277.0	5
10.	L.F. Rothschild	265.0	5
11.	Lazard Freres	225.0	2
12.	Morgan Stanley	210.0	5
13.	Smith Barney	199.0	4
14.	Dillon, Read	141.8	1
15.	Wertheim	75.0	1

Junk bonds

	Firm	$ mil.	issues
1.	Drexel Burnham	9,184.1	98
2.	Salomon Brothers	1,606.0	15
3.	Morgan Stanley	1,239.2	16
4.	Merrill Lynch	1,108.0	20
5.	Shearson Lehman	953.5	12
6.	Goldman, Sachs	862.0	9
7.	First Boston	814.4	13
8.	E.F. Hutton	554.5	7
9.	Bear, Stearns	518.9	12
10.	Prudential-Bache	471.0	9
11.	Kidder, Peabody	355.0	10
12.	L.F. Rothschild	353.3	7
13.	Smith Barney	302.4	8
14.	Lazard Freres	125.0	1
15.	Allen	90.0	2

Stock Issues

Common stock

	Firm	$ mil.	issues
1.	Goldman, Sachs	3,461.5	35
2.	Merrill Lynch	3,294.8	59
3.	Salomon Brothers	3,240.3	34
4.	Morgan Stanley	2,118.0	27
5.	First Boston	1,896.0	22
6.	Shearson Lehman	1,777.9	27
7.	Kidder, Peabody	1,394.7	30
8.	Drexel Burnham	1,308.0	38
9.	PaineWebber	671.6	26
10.	Dean Witter	584.1	15
11.	Bear, Stearns	393.0	13
12.	Smith Barney	389.3	15
13.	L.F. Rothschild	318.2	18
14.	Alex. Brown	314.3	17
15.	E.F. Hutton	313.5	13

Straight preferred

	Firm	$ mil.	issues
1.	Shearson Lehman	1,987.5	28
2.	Salomon Brothers	1,285.0	19
3.	Merrill Lynch	701.0	7
4.	Morgan Stanley	555.0	9
5.	First Boston	550.0	7
6.	Drexel Burnham	498.6	3
7.	Goldman, Sachs	260.0	4
8.	Prudential-Bache	161.1	2
9.	Smith Barney	100.0	1
10.	Dean Witter	50.0	1
11.	PaineWebber	50.0	1
12.	Kidder, Peabody	45.0	1
13.	Oppenheimer	30.0	1
14.	Meuse, Rinker	25.0	1
15.	Keane Securities	4.8	1

Convertible preferred

	Firm	$ mil.	issues
1.	Goldman, Sachs	775.0	5
2.	Drexel Burnham	305.0	3
3.	PaineWebber	279.8	6
4.	Morgan Stanley	230.0	2
5.	Lazard Freres	130.0	1
6.	Salomon Brothers	110.0	2
7.	Merrill Lynch	105.8	2
8.	First Boston	92.0	3
9.	Dean Witter	91.3	3
10.	Shearson Lehman	60.0	2
11.	Alex. Brown	40.0	1
12.	E.F. Hutton	24.0	1
13.	Ryan, Beck	13.8	1
14.	Prudential-Bache	13.0	1
15.	Piper, Jaffray	11.0	1

* U.S. issuers only/ Also, excludes non-European issued securities, such as Samurai bonds.

** All issuers. Excludes non-European issued securities, such as Samurai bonds.

† Includes Credit Suisse

Source: IDD Information Services

Salomon dominates . . .

Salomon Brothers

Market	Rank '85	Rank '84
U.S market	1	1
Euromarket	1	NA
Worldwide	2	NA
Straight debt	1	1
Convertibles	8	6
Junk bonds	2	NA
Mortgage debt	1	NA
Common stock	3	5
IPOs	5	NA
Straight pref.	2	6
Convertible pref.	6	4

First Boston

Market	Rank '85	Rank '84
U.S market	2	3
Euromarket	2	NA
Worldwide	1	NA
Straight debt	2	3
Convertibles	3	2
Junk bonds	7	NA
Mortgage debt	2	NA
Common stock	5	8
IPOs	14	4
Straight pref.	5	4
Convertible pref.	8	2

Goldman, Sachs

Market	Rank '85	Rank '84
U.S market	3	5
Euromarket	3	NA
Worldwide	4	NA
Straight debt	3	5
Convertibles	4	3
Junk bonds	6	NA
Mortgage debt	9	NA
Common stock	1	2
IPOs	1	6
Straight pref.	7	1
Convertible pref.	1	1

Continued from page 4

While First Boston trailed Salomon in total mortgage-related debt issues, it led Salomon in collateralized mortgage obligations, with a 38.5% market share compared with 30.2% for Salomon. Between them, these two have divided the CMO market, with third place going to Merrill Lynch, with 8.1%.

Goldman, Sachs led the field in common stock issues during the year, with a 14% market share on a full credit basis, followed by Merrill Lynch and Salomon Brothers.

Goldman underwrote the second largest common stock offering, the $750 million Rockefeller Center Properties offering.

Goldman also led the field in initial public offerings with a 19.9% market share, followed by Merrill Lynch Capital Markets, 15%, Shearson Lehman, 13%, and Kidder Peabody & Co. Inc., 6.4%.

It also led in convertible preferred issues with a 33.3% share on a full credit basis, well ahead of Drexel Burnham, with 13.1%.

Goldman also underwrote some of the largest debt offerings during the year, including a $598.5 million notes offering for Philip Morris Inc. in December, a $300 million sinking fund debenture issue for Procter & Gamble Co. in November, and a $300 million note issue for Citibank.

Merrill Lynch Capital Markets was the top underwriter of convertible debt for the year, with an 18.7% market share on a full credit basis, followed by Drexel Burnham, 16% and First Boston, 11.4%.

Merrill Lynch was second in common stock underwriting and in initial public offerings and third in straight preferred stock.

The company's capital markets group came out with zero-coupon convertibles early in the year for Waste Management Inc. and raised $100 million for the company.

Merrill Lynch Capital Markets also honed in on the medium-term note area during the year. It set up a $500 million medium-term note facility backed up by mortgages for California Federal Savings & Loan Association. The facility is like a shelf registration in that it is an ongoing program with CalFed issuing increments of the total as it sees fit.

Shearson Lehman was the top underwriter of straight preferred stock during the year with almost one-third of the market on a full credit basis, followed by Salomon, 20.4%, and Merrill Lynch Capital Markets, 11.1%.

The firm led in this area because of its emphasis on money market preferred stocks, which have their interest rates set every 49 days via an auction or investor bids.

Shearson also came out with money market notes, which work along similar lines, and exchangeable money market preferred. The latter are not only re-marketed every 49 days, but also can convert at the option of the issuer to money market notes after two years.

The first issue of exchangeable money market preferreds came out in mid-December, with a $75 million offering for Household Finance Corp. with an initial yield of 6.25%. This was followed by a $150 million two-tranche deal for American International Group at a 6% initial yield.

Shearson also was lead manager for the $824 million Fireman's Fund initial public offering, the largest IPO of the year. The deal lifted Shearson to third in the IPO underwriting rankings. Without it, the firm would have ranked fifth. It also improved Shearson's common stock ranking to sixth from eighth.

Drexel Burnham, as expected, led the way in junk bond financing, with 47.9% of the market on a full credit basis. Its nearest competitor was Salomon Brothers, 8.4%.

Drexel also ranked second in convertible debt to Merrill Lynch Capital Markets and second in convertible preferreds to Goldman, Sachs.

The firm did the largest single financing of the year, a $1.2 billion senior note issue in November for SCI Holdings, the shell corporation for the Storer Communications Inc. buyout.

It also raised $500 million in the public markets for Wickes Co. to raise money for its acquisition of several Gulf & Western Industries' divisions.

Drexel also underwrote a $572 million subordinated notes and debentures issue for Pantry Pride in July; a $398 million subordinated notes and debentures issue for Harte-Hanks Communications; and a $398.5 million issue for Philadelphia Electric, both in November.

Although it still had almost 50% of the junk bond market, Drexel's market share has slipped dramatically from last year, when it had almost 75% of the market it pioneered.

One other interesting deal underwritten by Drexel was a $146 million public offering of 15-year participating first mortgage bonds. These kinds of deals had been done only in private markets before, but a growing need for financing by commercial real estate developers is expected to take to public markets in greater numbers in the future.

Among the financing innovations of the year was Morgan Stanley's JETS (joint extendable term securities) for People Express Airlines. The carrier issued $125 million of the notes, which investors can put back to the company after five years, or they can buy, at par, an equal amount of the notes carrying the same terms.

Also, Monsanto Co. and Dart & Kraft Financial Corp. both issued Eurobonds with debt warrants through Morgan Stanley International. Monsanto's was a five-year offering, while Dart & Kraft's was for 10 years. The two issues involved bonds that can be called before maturity along with warrants to buy similar but non-callable bonds. ■

Shearson Lehman Brothers

Market	Rank '85	Rank '84
U.S market	7	6
Euromarket	11	NA
Worldwide	7	NA
Straight debt	7	6
Convertibles	5	1
Junk bonds	5	NA
Mortgage debt	3	NA
Common stock	6	3
IPOs	3	3
Straight pref.	1	2
Convertible pref.	10	NA

Merrill Lynch

Market	Rank '85	Rank '84
U.S market	4	4
Euromarket	5	NA
Worldwide	3	NA
Straight debt	4	4
Convertibles	1	4
Junk bonds	4	NA
Mortgage debt	4	NA
Common stock	2	4
IPOs	2	2
Straight pref.	3	3
Convertible pref.	7	NA

Drexel Burnham Lambert

Market	Rank '85	Rank '84
U.S market	5	2
Euromarket	NA	NA
Worldwide	6	NA
Straight debt	5	2
Convertibles	2	5
Junk bonds	1	NA
Mortgage debt	6	NA
Common stock	8	9
IPOs	6	5
Straight pref.	6	7
Convertible pref.	2	NA

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INVESTMENT COMPANY INSTITUTE

SEI, Merrill clients applaud acquisition

By Trudy Ring

SEI Corp.'s acquisition of the Merrill Lynch Consulting Group will have a positive effect, according to interviews with pension-fund clients of both firms.

SEI of Wayne, Pa., agreed in principle Dec. 11 to acquire Merrill Lynch Consulting of New York; the price, according to sources, was $6 million. The acquisition will make SEI the nation's largest pension fund consulting firm by far, with a 45% market share and about 2,400 clients.

"I was very pleased with the acquisition," said John Gallhue Jr., executive director of the Boston-based Massachusetts Bay Transportation Authority pension fund, an SEI client. "It's a plus for SEI, and it'll be a plus for their clients."

Mr. Gallahue said one positive aspect of the purchase agreement is that SEI now will direct its soft-dollar business through Merrill Lynch's Broadcourt Capital Corp. SEI had been directing trading through Pershing Division of Donaldson, Lufkin & Jenrette.

"To be directing through Merrill Lynch is going to be much easier to do than it was through Pershing," he said.

Other SEI clients said they were pleased that the acquisition will increase the firm's data base. "Our feeling is it's probably an advantage to expand the data base from over 4,500 to over 7,500 (tax-exempt portfolios)," said Robert Steele, trust and investment officer of the University of Idaho endowment fund, Moscow. The larger data base will give the internally managed fund's executives a better idea of how they are doing, he said.

Mark Koenig, manager of investments for Internorth Inc., Omaha, Neb., added, "To the extent that it adds other funds to the data base, it's to our advantage."

Messrs. Steele and Koenig both said the new soft-dollar arrangements will not affect their funds; they pay their fees in hard dollars.

Merrill Lynch Consulting clients also had generally favorable comments. One corporate pension fund executive, who asked not to be identified, said he has been happy with Merrill Lynch's service and price. "But I think SEI is perhaps a more client-oriented performance service, and although I think the price may go up, I'm pleased," he said.

Ray Clardy, finance director in Jacksonville, Fla., said the city has used Merrill Lynch as consultant for one municipal pension fund and SEI for another. He said he doesn't know if SEI now will become consultant for both funds, or if city pension officials will make a change.

"Merrill Lynch, in the past, has served us well," he said. "I kind of hate to see them go. But both firms have served us well, so I don't know what we're going to do." ■

Pensions & Investment Age

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Defined Contribution Assets SOAR

INSIDE: Top 1,000 pension funds

Wesley Medical sets incentive fees for managers

By Chuck Paustian

WICHITA, Kan. — The $220 million Wesley Medical Endowment Foundation has hired four equity managers under an incentive fee arrangement it intends to make later with two new fixed-income managers as well.

The hirings represent the first incentive fee arrangement for the six new managers as well as the fund's two existing managers.

The Wesley Medical Endowment Foundation is among the first funds to adopt performance-based fees since the Securities and Exchange Commission approved the use in November of performance-based fees for institutional investors. However, the Department of Labor has yet to approve the practice, instead choosing to review incentive fees on a case-by-case basis for funds subject to the Employee Retirement Income Security Act (*Pensions & Investment Age*, Nov. 25). Endowments, foundations and public funds are not subject to ERISA.

Lawrence E. Davanzo, vice president of Wilshire Associates, Santa Monica, Calif., Wesley's consultant, said the four new equity managers are: Aronson & Fogler, Philadelphia; Westwood Management Corp., New York; Northern Capital Management Inc., Madison, Wis.; and Cramblit & Carney Inc., Los Angeles.

The two fixed-income managers hired were: Bradford & Marzec Inc., Los Angeles; and Investment Advisers Inc., Minneapolis.

Duane Dyer, president of the foundation, said the fund's two existing managers, First National Bank in Wichita, for equities, and Fourth National Bank & Trust Co., Wichita, for fixed-income, were allocated additional assets and will manage the entire accounts on an incentive-fee basis.

The eight managers received a total of $210 million, although Mr. Davanzo declined to release the amounts allocated to each.

The money came from the sale of the Wesley Medical Center to Hospital Corp. of America, Nashville, for more than the $210 million.

Wilshire was hired by the foundation on a retainer basis to find managers for the new assets. Wilshire is the fund's first consultant.

"All of the managers were selected to offer protection in market declines," said Mr. Davanzo.

Mr. Davanzo said the managers are under an asymmetrical fulcrum fee arrangement, meaning a manager's fee could go down more than it could go up.

Prior to the SEC ruling in November, only symmetrical fulcrum fees, tied to an appropriate, generally recognized index, were permissible.

Under a symmetrical fulcrum fee arrangement, the manager's fee increases or decreases in equal increments based on his performance in comparison with his stated objective. For example, for every 100 basis points above or below the stated objective, the manager's fee would increase or decrease 10%.

With asymmetrical fulcrum fees, the amount the fee can increase or decrease are not equal.

Under the incentive-fee arrangements, the managers are guaranteed a base fee, a discount from their standard fee, said Mr. Davanzo.

"(The equity managers) earn their normal fee only when their return is equal to their performance objective. If they only equal the market, or fall below it, they only receive the base fee," he said.

"We establish the guidelines with each manager and set up the base fee with each manager." He would not discuss specific fees.

The managers could earn more than their normal fee if they surpass their performance objective, although a maximum fee is established with each manager.

Because of time constraints, an incentive-fee arrangement could not be made with the bond managers as they were hired, he said.

"Bond management fees are lower than equity management fees so you have less of an incentive to pursue it," he said.

The managers' willingness to accept a performance-based fee schedule was not a criterion for inclusion in the manager search, but was in the final presentation.

Since the SEC approval, Mr. Davanzo said, he has implemented incentive-fee arrangements with three other funds — all non-corporate ones — he would not name.

One fund with performance-based fees is the $1.3 billion Rockefeller Foundation, New York, said Jack Meyer, treasurer and chief investment officer. Nine of the foundation's 10 managers are on incentive fees, including: Geewax, Terker & Co., King of Prussia, Pa.; Rosenberg Capital Management, San Francisco; and Warburg, Pincus Counsellors Inc., New York.

"We are very much in favor of fulcrum symmetrical fees," said Mr. Meyer. "We are

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The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500 stock index, the Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

***P&I Age* December indexes**

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	4.9	31.8	31.8
Russell 3000[1]	4.4	32.1	32.1
Ryan Index[2]	3.7	24.1	24.1
SLAE Gov't./Corp.[2]	3.1	21.3	21.3

Source: Rogers, Casey and Barksdale Inc.

[1]Frank Russell Co. [2]Fixed income.

Funds may force bankruptcy

By Steve Hemmerick

An Alabama public pension fund executive, fearing a loss of part of $24.2 million in debt his two funds hold on a troubled insurance concern, says it was his fiduciary obligation to try to force the company into Chapter 11 bankruptcy.

David Bronner, secretary-treasurer of the Teachers' Retirement System of Alabama and The Employees' Retirement System of Alabama, said the funds filed a petition Jan. 7 to force Mission Insurance Group Inc., Los Angeles, into Chapter 11 proceedings. Other plaintiffs were Martin J. Whitman, trustee of M.J. Whitman & Co. Inc. pension plan, and Carl Marks & Co., an investment banking firm in New York.

The action was designed to give the retirement systems and the two other plaintiffs priority on claims against Mission. Mr. Bronner said he was forced into action after Mission missed its Dec. 1, semiannual payment to his pension funds on $3.5 million in 9% sinking fund debentures due 2002.

On Jan. 15, after the suit was filed, Mission defaulted again. This time, the company didn't make an estimated $1.2 million payment on the $20.7 million worth of 11⅞ notes (due 1993) held by the Alabama funds.

The four plaintiffs hold a total of 46% of the $50 million issue of 11⅞ notes and 17% of the $21 million issue of 9% sinking fund debentures.

If granted, the petition would create a "major obstacle" in a proposed rescue plan for Mission, according to Joseph A. Morton, California deputy insurance commissioner and chief of conservation and liquidation. The petition is scheduled to be heard late this month in federal bankruptcy court in Los Angeles.

If the rescue plan falls through, the state of California likely will proceed with liquidation, according to state officials. Last August, the California Insurance Department office found Mission insolvent by $169.5 million.

The rescue plan can't go forward without the consent of Mission's debtholders, including the retirement funds, because the plan involves an exchange of debt.

With the pension funds playing such a key role in the rescue plan, Mr. Bronner said he doesn't understand why Mission didn't try to contact him. He said he didn't hear "one peep" from Mission officials to explain why they missed the payment.

Also, he said, he first learned of Mission's proposed restructuring plan from newspaper stories.

Mission officials couldn't be reached to answer questions. In public announcements, however, the company stated that because of the restructuring, Mission's outstanding public issue of debentures may receive new issues of debt of "lower principal amount." It also stated holders of Mission's obligations may be asked to modify or waive certain covenants in their existing issues.

Mission officials wouldn't say, and Mr. Bronner said he didn't know, how much less in principal amount debtholders might be asked to accept. But the belief that he would accept such conditions unilaterally is "absurd," Mr. Bronner said.

"In this exchange offer, they want us (the Alabama retirement systems and other debtors) to take our securities and trade them in for some lesser grade of securities," said James P. Heffernan, an attorney for the retirement systems and a member of the law firm Anderson, Russell, Kill & Olick, New York.

"They basically would like us to take all the hurt here. We are not prepared to do that. If there is going to be a haircut given in this case, it is going to be taken by the shareholders, not by us," he said.

Typically, he said, any company would rather do such a reorganization through an exchange offer "because chances are all your bondholders won't be organized. You pick them off one at a time."

But, he added, this case isn't typical, and others in the future won't be when there is a large, sophisticated pension fund involved.

"In this case, you have bondholders already organized, and you have got two bondholders (the Alabama systems) that control almost 40% of it. They intend to negotiate just as tough as they can."

Mission and its five subsidiaries are primarily involved in worker compensation insurance, but the insurance group ran into trouble with its reinsurance underwriting. Reinsurance is a way insurance companies share risk among them-

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Kaiser staff quits; outside firms hired

By Rose Darby

OAKLAND, Calif. — Kaiser Aluminum & Chemical Corp.'s pension plan has shifted to completely external investment management because its pension investment staff resigned.

"We're doing everything outside," said Norman L. van Patten, director of pension fund management. "Basically, now we'll be doing administrative management and focusing on asset allocation (internally)," he added.

Kaiser has moved about $275 million, or the remaining 59% of its $470 million in pension assets, to three outside fixed-income managers and two equity index funds, Mr. van Patten said.

Wentworth, Hauser & Violich, San Francisco, and The Putnam Advisory Co. Inc., Boston, each received $40 million for fixed income.

Fixed-income manager Wilmington Trust Co., Wilmington, Del. was given an initial allocation of $115 million, of which $50 million to $60 million will be used for benefit payments to retirees during the year.

The Wilmington account will not be a cash management account, but it will hold either all Treasury bills or five-year bonds "so that it's very liquid and has many aspects of a short-term investment fund, but with a higher return," said Mr. van Patten.

About $35 million of private placement bond funds will remain unaffected by the changes, with Equitable Life Assurance Society of the United States, New York, he added.

Early in the second half of 1985, Kaiser's pension committee decided to allocate roughly $80 million in internally managed equities into two equity index funds, Mr. van Patten said.

Those assets are divided equally between Mellon Capital Management Corp., San Francisco, and Wells Fargo Investment Advisors, San Francisco, he said.

The moves began when James Todhunter Jr., former director of pension fund management, left to start his own investment management firm in conjunction with brokers Swergold, Chefitz, Sinsabaugh Inc., New York. The new firm, Todhunter/SCS Inc., is in San Francisco.

Mr. van Patten became Kaiser's director of pension fund management early in the second quarter of 1985. He has been with Kaiser for 30 years, the past 12 years as assistant treasurer.

E. Monty Lee, the former manager-pension fund investment, left to join the California Public Employees' Retirement System, said Mr. van Patten.

The other two portfolio professionals joined other investment firms, he added. ■

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W. Teamsters trustees settle

Defined benefit plan to stay

By Steve Hemmerick

SEATTLE — Plans to convert the $5.9 billion Western Conference of Teamsters Pension Trust Fund to a defined contribution plan have been scrapped, said Joseph Ballew, co-chairman of the trust.

Some of the 14 members of the board of trustees had wanted to switch from a defined benefit plan to either a defined contribution or hybrid plan.

Meanwhile, efforts are under way to streamline some aspects of the trust, to make it less complicated, more attractive to employers and more competitive in today's environment, he said.

Mr. Ballew did not spell out how this streamlining would be accomplished, saying the topic was still under discussion among plan trustees. But he did say the plan is 97% funded, and "extremely healthy."

In addition, a number of money managers, both active and passive, are being considered for hiring by the trust. Prudential Asset Management Co., Newark, N.J., the sole manager, would be retained, Mr. Ballew said.

And despite rumors to the contrary, Mr. Ballew said there will be no dismantling of the $2.2 billion of trust assets that had been put in a dedicated bond portfolio last year.

(The dedication reportedly was to be broken up to help prevent the move away from a defined benefit plan.)

Trustees appointed by employers and unions had extensive discussions about converting the plan, Mr. Ballew acknowledged. As a result of the discussions and studies of the trust, the management trustees dropped a lawsuit they had filed against union trustees (*Pensions & Investment Age*, May 13).

The trust is a multiemployer pension plan, with trustees evenly divided between labor and management.

Mr. Ballew, who is a union representative, said employer and employee trustees have settled their differences.

"We are spending a heck of a lot of time doing analysis and projections with A.S. Hansen" of Lake Bluff, Ill., the trust's consultant, he said.

Owen Bennett, co-chairman of the trust and an employer representative, said trustees had reached an agreement, but he still has hope of some "variations" of the defined benefit plan. He would not elaborate.

Mr. Ballew also said participants in the pension trust had been given a 25% increase in benefits, and he described that increase as a major victory for participants.

At least part of the money for the increase came as a result of the dedication of assets. Following the asset dedication, an actuarial refiguring showed the plan had several hundred million additional dollars.

At first, several of trustees planned to pay off the fund's entire liability and establish a hybrid plan that would have had at least some of the aspects of a defined contribution plan.

But other trustees objected, saying the plan had a very small unfunded liability and assets resulting from the dedication should be used to give plan participants a benefit increase.

Trustees were sharply divided; the legal action followed. Employer-appointed trustees accused union ones of trying to expand the plan's unfunded liability and hurt the long-term solvency of the plan. They asked a judge to restrain the union trustees from making changes in the plan.

Trustees would only say the suit was settled when an agreement was reached, but they wouldn't detail aspects of the settlement, in part, they said, because actions outlined in the agreement are still being worked out.

Mr. Ballew said one of the reasons he and some other trustees objected to a defined contribution plan was a study showing that participants who retired for the next 12 years would take home more benefits under the defined benefit plans than under the proposed defined contribution plan.

He also said the defined benefit plan would be much less likely to be hurt under any tax reform proposal.

Speaking in general terms, Mr. Bennett said he would like to see benefits more closely relate to contributions, as is true in a defined contribution plan.

Trustees wouldn't say whether they would consider establishing side-by-side plans, a defined benefit plan and a defined contribution plan.

While total conversion to a defined contribution plan is "rare" among multiemployer plans, side-by-side plans have become somewhat popular, according to Martin Levenson, a senior vice president with Segal Advisors Inc., New York, which does consulting work for many multiemployer plans.

Having an annuity or defined contribution plan, where assets are locked up and liabilities non-existent, alongside a defined benefit plan, said Mr. Levenson, "relieves them of the withdrawal liability situation."

Some employers are afraid to join multiemployer trusts for fear of being saddled with some of the trust's past unfunded liability.

Mr. Levenson said that rarely happens, and the withdrawal liability issue is usually more of a psychological problem than an actual one. ■

Debt deals in trouble?

By Barry B. Burr

With a number of recent proposed junk bond financings having trouble getting commitments, Wall Street observers are divided on whether the problems are peculiar to these deals or are a sign of a souring in the market for the highly leveraged debt securities.

Proposed takeovers involving MGM/UA Entertainment Inc., R.H. Macy & Co. and Trans World Airlines Inc., among others, haven't been able to raise financing.

At the same time, a trend isn't clear. Other recent deals have been consummated and financed in large part with the low-rated, high-yield securities.

Kohlberg Kravis Roberts & Co., one of the largest leveraged buy-out firms, faced disparate reactions to a couple of its recent deals.

In a junk deal underwritten by Drexel Burnham Lambert Inc., SCI Holdings Inc. sold the largest bond offering of 1985 in December as part of KKR's financing for its buy-out of Storer Communications Inc.

More recently, though, Kohlberg Kravis Roberts lowered its bid for Beatrice Cos., offering less cash, trying to complete the takeover.

The incomplete takeovers indicate junk bond deals were already having trouble attracting financing even before the recent Federal Reserve Board's limitation on the use of the highly leverage debt.

The deals still are pending despite the involvement of some of the shrewdest and most experienced individuals and firms involved in takeovers, including Drexel, the leading junk bond investment banker.

Because of trouble raising financing, Carl C. Icahn downgraded his offer for TWA. The management group seeking Macy cut its bid to ease financing requirements.

> *"There are certainly enough examples to say there is trouble in 'junk bond city.' That's the impression we've drawn."*
> — William H. Gross, Pacific Investment

The new Fed margin rule on junk bonds, narrower than initially proposed, apparently won't affect many of the deals; it exempts, among other cases, situations where there is a merger agreement between acquiring and target companies.

Several money managers specializing in investing in the low-rated debt securities dismissed suggestion that problems with some deals are a market refutal of junk bonds in general.

In fact, Talton R. Embry, president of Magten Asset Management, New York, thinks recent market rejection to some deals "is very positive."

"Not every transaction that is proposed should be financed," he said.

"People like to make good loans, even junk bond participants.

"With TWA, Icahn wanted to withdraw more money than he put into it. If he doesn't want to put up his money, why should I? He hasn't been able to finance the transaction as he wanted to."

Other recent junk deals have gotten commitments, he said, showing the junk bond market is still thriving. He cited Storer's bond sale and noted GAF Corp. had lined up financing commitments for its now-abandoned proposed takeover of Union Carbide Corp.

"The market is willing to look at each transaction and take transactions they feel are reasonable," he added.

Mr. Talton said troubles lie with particular issues, not in the junk bond market in general.

Gary T. Crum, senior vice president, AIM Management Inc., Houston, agreed.

"The high-yield market is not a homogeneous market," he said.

"I don't think there is a general souring in the high-yield area. I would think it's the contrary; it's a problem of the particular deals."

But William H. Gross, managing director, Pacific Investment Man-

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Most new accounts

Firm	New accounts 1985	1985 rank	New accounts 4th qtr.	4th qtr. rank
The Boston Co.	17	1	4	5
Bankers Trust Co.	15	2	4	5
Mellon Capital Mgmt. Corp.	13	3	2	*
Trinity Investment Mgmt.	12	4	1	*
State Street Bank	12	5	6	2

* not ranked in top 5
tied for this category
Source: *Pensions & Investment Age*

4th-quarter shifts decide hot firms

By Trudy Ring

Moves by large public pension funds toward the end of the year accounted for some of the biggest shifts of assets in the fourth quarter and the 12 months of 1985.

As a result, Citicorp Investment Management, New York, and Investment Advisers Inc., Minneapolis, were among the advisory firms that had the most new assets under management reported for the quarter and the year.

Also, index funds continued to attract large amounts of assets, with three leading index fund managers placing in the Top 10, as measured by new assets under management, in both the year and quarter. The three are Mellon Capital Management Corp. and Wells Fargo Investment Advisors, both of San Francisco, and Bankers Trust Co. — Investment Management Group, New York.

(Managers who gained the most assets and most new accounts were identified through money movers and other articles in *Pensions & Investment Age*. Current accounts, a cross-reference to manager hirings, is published quarterly and begins on page 84 of this issue.

(Some managers may have gained or lost accounts that were not reported in the publication. Scorecard, a *P&I Age* survey of managers' accounts gained or lost during 1985, will be published Feb. 3.)

Citicorp had $2.65 billion in new assets under management reported in 1985, all in the fourth quarter. This made the firm the winner for both the quarter and the year. The money came from fixed-income portfolios that the $9.6 billion New York City Teachers Retirement System and the $419 million New York City Board of Education Retirement System shifted from Favia, Hill & Associates, New York.

However, assignment of the portfolio to Citicorp is temporary, because the New York City comptroller's office is setting new standards for investment managers running the assets of five city retirement systems. When that process is complete, fund officials will decide what to do with the assets pulled from Favia, Hill.

Investment Advisers was second for the quarter, with nearly $1.2 billion in new assets. It was fifth for the year.

The bulk of the new assets assigned to Investment Advisers came from the West Virginia Board of Investments, which chose the Minneapolis firm as sole adviser for the $1.15 billion in combined assets of the Public Employees' Retirement System and the Workers' Compensation Trust Fund.

Investment Advisers will run the money entirely in fixed income, using an active strategy. The firm replaces Loomis, Sayles & Co. Inc., Boston, as adviser of the $644 million employees' system and Scudder, Stevens & Clark, Boston, as adviser of the $501 million workers' compensation trust.

Mellon Capital was second for the year, with $1.94 billion in new assets under management. Of this, Mellon gained $365 million in the fourth quarter, placing the firm sixth for that period. New accounts in the quarter were a $200 million multinational stock index fund for the Teamsters, Central States, Southeast & Southwest Areas pension fund, Chicago, and a $165 million balanced account for the New York City Teachers' Variable Fund.

Mellon already was managing $800 million in stock index funds for the Central States Teamsters. This account was reported during the first quarter. Other large accounts reported for Mellon in the first three quarters included a bond index fund for the I.A.M. National Pension Fund, Washington, in which it split $800 million with three other managers, and a $200 million stock index fund for the pension fund of U S WEST Inc., Englewood, Colo.

Mellon also was third in new accounts reported for the full year, with 13.

Bankers Trust's investment man-

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Most assets gained
($ millions)

Firm	New assets 1985	1985 rank	New assets 4th qtr.	4th qtr. rank
Citicorp Investment Mgmt.	2,650	1	2,650	1
Mellon Capital Mgmt. Corp.	1,940	2	365	6
Bankers Trust Co.	1,435	3	535	3
Wells Fargo Investment	1,368	4	135	*
Investment Advisers Inc.	1,214	5	1,186	2
J.P. Morgan Investment	986	6	356	7
Duff & Phelps Investment	878	7	400	5
Kohlberg Kravis Roberts	525	8	525	4
Richard Ellis Inc.	500	9	0	*
Neuberger & Berman	379	10	156	10

* not ranked
Source: *Pensions & Investment Age*

Profiles: The top 200

Benefit payments top contributions

By Trudy Ring

Benefit payments by many large corporate pension funds outstripped contributions in 1985, as funding of defined benefit plans remained healthy and companies encouraged early retirement.

Data provided by 48 large corporate funds showed contributions of $6.1 billion and benefit payments of $6.9 billion in 1985. Their contributions were down 4.7% from 1984's $6.4 billion, while their benefit payments were up 15% from $6 billion.

The 48 were chosen because they were among the nation's 200 largest pension funds in both 1984 and 1985 and gave *Pensions & Investment Age* figures for contributions and benefits for both years.

However, at some companies benefit payments have been exceeding pension fund contributions for several years. Last year, a *P&I Age* survey of 69 corporate and union funds found benefit payments for 1984 were $305 million more than contributions. That survey included some, but not all, of the 48 funds for which 1985 data were obtained.

In many cases, companies decreased or curtailed contributions to defined benefit plans because the plans have neared or reached full funding. For instance, Exxon Corp., New York, was able to decrease its contribution 74%, to $113 million in 1985 from $437 million in 1984, because its plan is so well-funded.

Phillips Petroleum Co., Bartlesville, Okla., made no contribution to its defined benefit plan in 1985 because the plan is overfunded. (Phillips has not contributed to the plan since 1982.) The company did contribute $25 million to its combined 401(k) and thrift plans.

Generally, if there was an increase in contributions, it was to defined contribution plans.

"Defined benefit plan contributions are going down," said Gary Pines, a consultant with the actuarial firm of Towers, Perrin, Forster & Crosby, Chicago. "I haven't seen one go up this past year."

At the same time, he said, defined contribution plans are gaining dollars. Employees find 401(k) plans appealing, for instance, because of the opportunity to earn a tax-deferred return on pretax dollars, while getting a matching contribution from employers, he said.

Changes in actuarial assumptions also allowed some corporations to decrease their pension fund contributions. E.I. du Pont de Nemours & Co. Inc., Wilmington, Del., cut contributions 31%, to $269 million in 1985 from $390 million in 1984, because it raised its actuarial assumption to 9% from 7.5%.

Also, TRW Inc., Cleveland, reduced its contributions 29%, to $71 million from $100 million, and raised its actuarial assumption to 10% from 8.5% to better reflect investment gains.

David Vaughn, senior consultant with The Wyatt Co., Chicago, said good investment performance has been a key factor in many contribution reductions. Also, new Financial Accounting Standards Board guidelines call for actuarial assumptions that reflect current market conditions, leading companies to raise assumptions.

A few companies bucked the trend, increasing contributions significantly. For instance, Chrysler Corp., Detroit, increased contributions 25%, to $570 million in 1985 from $456 million in 1984, largely because of a new labor contract.

But such companies definitely were in the minority.

Several corporate plans saw increases in benefit payments because of early retirement programs.

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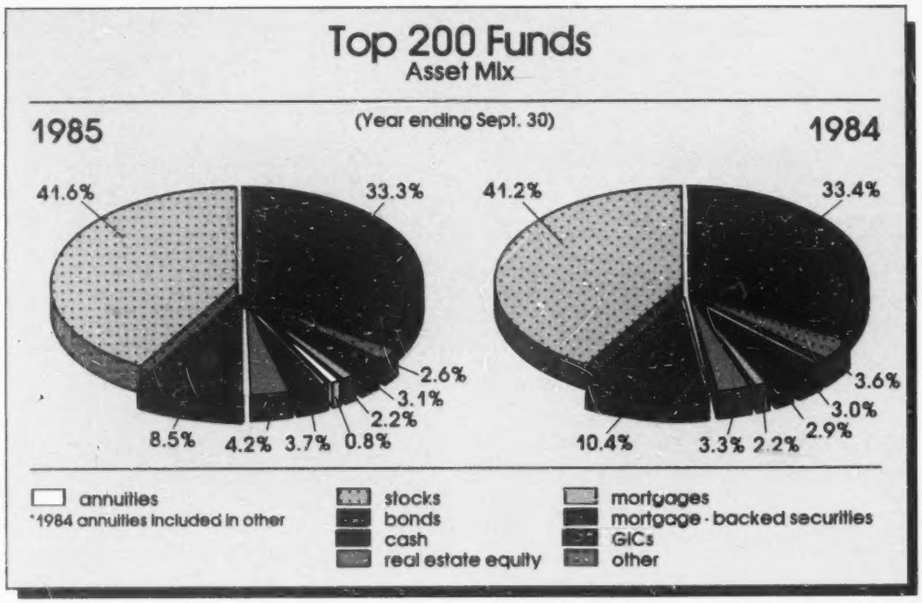

Mergers cited as pension funds fall from listing of 200 largest

By Alan Krauss

Corporate mergers and divestitures were the single largest factor accounting for disappearances from *Pensions & Investment Age*'s ranking of the 200 largest U.S. employee benefit funds.

Of eight funds that were dropped from the latest list, two were absorbed by acquiring companies and one divested several subsidiaries.

Corporate mergers might cause at least four more funds, including two in this year's Top 100, to vanish from next year's compilation.

The largest fund absorbed as a result of a corporate merger was Gulf Oil Corp., Pittsburgh, which was ranked 76th as of Sept. 30, 1984, with $2.2 billion in employee benefit assets. Gulf was acquired by Chevron Corp., San Francisco. As a result, Chevron jumped to 33rd on the new list, from 60th a year ago. Chevron had $6 billion in assets as of Sept. 30, 1985, compared with $3 billion a year earlier.

Chevron officials said they are continuing to run the Gulf master trust separately.

The Signal Companies, La Jolla, Calif., ranked 114th as of Sept. 30, 1984, was acquired last year by Allied Corp., Morristown, N.J. The merged conglomerate, Allied-Signal Inc., became the 34th largest pension fund as of Sept. 30, 1985, with $6 billion in assets.

However, Allied-Signal is destined to move down in the rankings when it completes the spinoff of 28 operating units into a new company that will take approximately $1 billion in pension assets with it.

Greyhound Corp., Phoenix, Ariz., dropped to 355th as of Sept. 30 from 179th a year ago. Its employee benefits assets shrank by $416 million as a result of 14 corporate divestitures in four years.

The largest of the divestitures was Armour Food Co., which resulted in a drop in employee benefit assets of between $200 million and $300 million, according to Richard B. Zoller, vice president-investments.

At least four major corporations among the Top 200 this year likely will disappear from next January's list as their employee benefit assets

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